

March 1, 2000

NOTE TO: Medicare+Choice Organizations and Other Interested Parties

SUBJECT: Announcement of Calendar Year (CY) 2001 Medicare+Choice Payment Rates

In accordance with section 1853(b)(2) of the Social Security Act (the Act), we are required to notify you of the annual Medicare+Choice capitation rate for each Medicare+Choice payment area for 2001, and the risk and other factors to be used in adjusting such rates. Attached is a spreadsheet containing the capitation rate tables for CY 2001, which include the rescaling factors that will be used with the risk-adjusted portion of payment in 2001. As discussed in Enclosure I, the final estimate of the increase in the National Per Capita Medicare+Choice Growth Percentage is -1.28 percent. For 2001, 69 percent (or about 2,180) of the county rates reflect the minimum percentage increase of 2 percent under section 1853(c)(1)(C)(ii) of the Social Security Act (the Act), and 31 percent will reflect the "floor" amount of \$415.01 for aged beneficiaries (or, if lower, the 2000 floor increased by the National Per Capita Medicare+Choice Growth Percentage for areas outside of the 50 States and the District of Columbia). Counties that received blended rates under section 1853(c)(1)(A) of the Act in 2000 will generally receive the 2 percent minimum increase over the blended 2000 rate. County worksheet data are posted on the HCFA Web site (<http://www.hcfa.gov/stats/hmorates/aapccpg.htm>). County demographic tables will be sent under separate cover.

This announcement also provides a set of tables which summarizes many of the key Medicare assumptions used in the calculation of the national per capita Medicare+Choice growth percentage. The instructions you need to complete the Adjusted Community Rate Proposals (ACR) for contract periods beginning January 1, 2001, will be forthcoming.

We received two letters of comment on the January 14, 2000, Advance Notice of Methodological Changes for the CY 2001. Enclosure III presents our responses to these comments.

Questions on the capitation rate tables and the National Per Capita Medicare+Choice Growth Percentage can be directed to Sol Mussey at (410) 786-6386. Questions on the submission of ACR proposals can be directed to Phil Doerr at (410) 786-1059. Questions on the risk adjustment methodology can be directed to Jim Hart at (410) 786-4474.

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Enclosures

Enclosure I

Final Estimate of the Increase in the National Per Capita Growth Percentages for 2001

The first table below shows the National Per Capita Medicare+Choice Growth Percentages (NPCM+CGP) used to determine the area specific rates and the floor amounts for 2001. Since the current payment methodology requires determining payment rates based on the 1997 rates, we are also showing the increases in the per capita rates from 1997 forward (1998 forward for the floor payments). These growth percentages reflect adjustments of -0.8 percent in 1998 and -0.5 percent in 1999 to 2001 as required by section 1853(c)(6)(B) of the Act. In addition, the increases for 1997 to 2000 reflect adjustments of -6.46 percent, -7.46 percent, -8.32 percent and -6.61 percent for aged, disabled, ESRD, and combined aged and disabled, respectively, in order to account for corrections to prior estimates, as required under section 1853(c)(6)(C). The combined aged and disabled increase is used in the development of the risk-adjusted ratebook. The second table shows similar information for the determination of the floor payment rates. Finally, the third table shows the monthly actuarial value of Medicare deductible and coinsurance for 2001 with 2000. These data were furnished by the Office of the Actuary.

Increase in the National Per Capita Growth Percentages for 2001

	Prior Increases	Current Increases			NPCM+CGP for 2001 with Sec.1853(c)(6)(C) adjustment ¹
	1997 to 2000	1997 to 2000	2000 to 2001	1997 to 2001	
Aged	10.76%	3.60%	5.54%	9.35%	-1.28%
Disabled	9.05	0.92	4.94	5.90	-2.88
ESRD	3.19	-5.40	1.50	-3.98	-6.95
Aged+Disabled	10.47	3.17	5.42	8.76	-1.55

¹Current increases for 1997 to 2001 divided by the prior increases for 1997 to 2000.

Increase in the Floor Payment Rate for 2001

	Prior Increases	Current Increases			NPCM+CGP (used for floor payment) for 2001 with Sec.1853(c)(6)(C) adjustment ²
	1998 to 2000	1998 to 2000	2000 to 2001	1998 to 2001	
Aged	9.44%	7.14%	5.54%	13.08%	3.33%
Disabled	7.93	5.97	4.94	11.21	3.04
ESRD	2.86	1.06	1.50	2.57	-0.27
Aged+Disabled	9.19	6.94	5.42	12.73	3.25

²Current increases for 1998 to 2001 divided by the prior increases for 1998 to 2000.

Monthly Actuarial Value of Medicare Deductible and Coinsurance for 2000 and 2001

	2000	2001	Change
Part A Benefits	\$28.42	\$28.05	-1.3 %
Part B Benefits ³	79.28	72.61	-8.4
Total Medicare	107.70	100.66	-6.5

³Includes the amounts for outpatient psychiatric charges.

Enclosure II

KEY ASSUMPTIONS AND FINANCIAL INFORMATION

Attached is a table, which compares the published United States Per Capita Costs (USPCC) with current estimates for 1993 to 2001. We are also providing the attached set of tables, which summarize many of the key Medicare assumptions used in the calculation of the USPCCs. The USPCCs are the basis for the National Per Capita Medicare+Choice Growth Percentage. Most of the tables include information for the years 1995 through 2003. Caution should be employed in the use of this information. It is based upon nationwide averages, and local conditions can differ substantially from conditions nationwide.

Comparison of Current Estimates of the USPCC with Published Estimates

Calendar Year	Aged			Disabled			Aged and Disabled		
	Current Estimate	Published Estimate	Ratio	Current Estimate	Published Estimate	Ratio	Current Estimate	Published Estimate	Ratio
PART A:									
1993	\$209.72	\$214.40	1.022	\$189.77	\$198.13	1.044	\$207.62	\$212.68	1.024
1994	\$233.05	\$236.69	1.016	\$209.44	\$219.17	1.046	\$230.43	\$234.75	1.019
1995	\$256.71	\$251.61	0.980	\$228.17	\$223.99	0.982	\$253.40	\$248.41	0.980
1996	\$278.42	\$274.84	0.987	\$241.35	\$235.40	0.975	\$273.95	\$270.05	0.986
1997	\$294.03	\$297.81	1.013	\$243.97	\$251.92	1.033	\$287.83	\$292.02	1.015
1998	\$273.79	\$271.26	0.991	\$225.88	\$224.86	0.995	\$267.58	\$265.22	0.991
1999	\$265.57	\$277.67	1.046	\$220.45	\$236.27	1.072	\$259.60	\$272.14	1.048
2000	\$271.70	\$286.18	1.053	\$224.10	\$230.48	1.028	\$265.25	\$278.61	1.050
2001	\$288.62	\$288.62	1.000	\$235.50	\$235.50	1.000	\$281.25	\$281.25	1.000
PART B:									
1993	\$123.41	\$144.24	1.169	\$111.39	\$115.71	1.039	\$122.23	\$141.46	1.157
1994	\$134.20	\$141.44	1.054	\$121.13	\$117.86	0.973	\$132.85	\$139.01	1.046
1995	\$142.83	\$148.91	1.043	\$139.71	\$131.82	0.944	\$142.49	\$147.07	1.032
1996	\$149.33	\$166.06	1.112	\$142.89	\$147.65	1.033	\$148.61	\$164.00	1.104
1997	\$158.55	\$169.14	1.067	\$150.58	\$149.06	0.990	\$157.64	\$166.82	1.058
1998	\$167.46	\$200.88	1.200	\$153.00	\$177.27	1.159	\$165.74	\$198.06	1.195
1999	\$179.14	\$206.31	1.152	\$158.86	\$175.90	1.107	\$176.67	\$202.57	1.147
2000	\$205.65	\$218.78	1.064	\$181.33	\$195.91	1.080	\$202.63	\$216.03	1.066
2001	\$217.57	\$217.57	1.000	\$191.99	\$191.99	1.000	\$214.32	\$214.32	1.000
PART A & PART B:									
1993	\$333.13	\$358.64	1.077	\$301.16	\$313.84	1.042	\$329.85	\$354.14	1.074
1994	\$367.25	\$378.13	1.030	\$330.57	\$337.03	1.020	\$363.28	\$373.76	1.029
1995	\$399.54	\$400.52	1.002	\$367.88	\$355.81	0.967	\$395.89	\$395.48	0.999
1996	\$427.75	\$440.90	1.031	\$384.24	\$383.05	0.997	\$422.56	\$434.05	1.027
1997	\$452.58	\$466.95	1.032	\$394.55	\$400.98	1.016	\$445.47	\$458.84	1.030
1998	\$441.25	\$472.14	1.070	\$378.88	\$402.13	1.061	\$433.32	\$463.29	1.069
1999	\$444.71	\$483.98	1.088	\$379.31	\$412.17	1.087	\$436.27	\$474.71	1.088
2000	\$477.35	\$504.96	1.058	\$405.43	\$426.39	1.052	\$467.88	\$494.64	1.057
2001	\$506.19	\$506.19	1.000	\$427.49	\$427.49	1.000	\$495.57	\$495.57	1.000

Summary of Key Projections Under Present Law ¹

Part A

Year	Calendar Year CPI Percent Increase	Fiscal Year PPS Update Factor	FY Part A Total Reimbursement (Incurred)
1995	2.9%	²	12.6%
1996	2.9	1.5%	9.6
1997	2.3	2.0	8.5
1998	1.3	0.0	-2.7
1999	2.2	0.5	-3.4
2000	2.6	1.1	1.2
2001	2.4	2.1	7.2
2002	2.6	2.1	6.6
2003	2.6	3.1	6.9

Part B ³

Calendar Year	Physician Fee Schedule		Part B Hospital	Total
	Fees	Residual		
1996	0.8%	-1.6%	8.5%	4.2%
1997	0.6	1.1	8.0%	4.8%
1998	2.3	2.3	-0.3%	4.5%
1999	2.3	2.4	2.7%	5.4%
2000	5.5	3.1	7.5%	12.0%
2001	-2.1	2.8	8.3%	4.4%
2002	-0.2	3.2	6.7%	4.5%
2003	0.4	3.2	6.6%	5.2%

¹Percent change over prior year.

²For entire year, 8.4% rural and 1.1% urban updates.

³Percent change in charges per Aged Part B enrollee.

Medicare Enrollment Projections Under Present Law (In Millions)

Calendar Year	Non-ESRD		Part B	
	Part A			
	Aged	Disabled	Aged	Disabled
1995	32.649	4.286	31.306	3.575
1996	32.927	4.519	31.862	4.024
1997	33.138	4.691	32.049	4.162
1998	33.328	4.962	32.173	4.325
1999	33.526	5.110	32.283	4.465
2000	33.761	5.295	32.486	4.611
2001	34.000	5.482	32.682	4.765
2002	34.254	5.669	32.879	4.923
2003	34.557	5.873	32.734	4.582

Calendar Year	ESRD Part A		299I ¹	Total
	Aged	Disabled		
1995	0.088	0.068	0.067	0.223
1996	0.094	0.073	0.072	0.239
1997	0.100	0.078	0.076	0.254
1998	0.104	0.083	0.080	0.267
1999	0.109	0.088	0.085	0.282
2000	0.115	0.093	0.090	0.298
2001	0.121	0.098	0.095	0.314
2002	0.128	0.103	0.100	0.331
2003	0.135	0.108	0.105	0.348

Calendar Year	ESRD Part B		299I	Total
	Aged	Disabled		
1995	0.081	0.063	0.063	0.207
1996	0.092	0.071	0.054	0.217
1997	0.101	0.076	0.057	0.233
1998	0.107	0.083	0.059	0.248
1999	0.112	0.088	0.062	0.262
2000	0.117	0.093	0.066	0.276
2001	0.123	0.098	0.070	0.291
2002	0.130	0.104	0.073	0.307
2003	0.123	0.100	0.076	0.299

¹ Individuals who qualify for Medicare based on ESRD only.

Part A Projections Under Present Law ¹

Calendar Year	Inpatient Hospital		SNF	
	Aged	Disabled	Aged	Disabled
1995	\$2,140.91	\$2,406.36	\$279.67	\$98.32
1996	2,221.84	2,482.32	331.07	115.20
1997	2,253.15	2,445.42	380.35	132.26
1998	2,173.92	2,340.06	370.46	128.68
1999	2,151.68	2,339.74	343.63	119.77
2000	2,209.62	2,403.73	393.09	135.96
2001	2,280.10	2,480.36	437.59	150.18
2002	2,347.46	2,555.23	473.35	161.38
2003	2,437.42	2,653.43	502.41	170.40

Calendar Year	Home Health		Managed Care	
	Aged	Disabled	Aged	Disabled
1995	\$466.04	\$312.89	\$234.78	\$89.77
1996	499.05	342.64	336.04	139.52
1997	483.37	332.50	464.42	206.92
1998	291.81	208.22	507.12	232.53
1999	185.37	131.33	568.69	260.43
2000	89.31	63.41	634.56	296.57
2001	103.75	73.15	711.22	334.94
2002	123.90	86.80	786.68	373.83
2003	142.56	99.28	863.92	414.98

Hospice: Total Reimbursement (in Millions)		
Calendar Year	Aged	Disabled
1995	\$1789	\$94
1996	1897	100
1997	1977	104
1998	2071	109
1999	2383	125
2000	2498	131
2001	2628	138
2002	2768	146
2003	2920	154

¹ Average reimbursement per enrollee on an incurred basis, except where noted.

Part B Projections Under Present Law ¹

	Physician Fee Schedule		Part B Hospital		Durable Medical Equipment	
	Aged	Disabled	Aged	Disabled	Aged	Disabled
		Non-ESRD		Non-ESRD		Non-ESRD
1995	\$888.86	\$769.83	\$237.62	\$281.31	\$98.29	\$138.60
1996	870.13	754.85	247.81	299.51	101.09	143.17
1997	872.84	762.10	254.31	310.66	109.60	161.03
1998	884.72	777.09	224.80	276.62	103.06	160.02
1999	913.22	787.65	224.96	274.63	106.71	166.48
2000	979.93	853.42	254.74	314.16	112.26	176.89
2001	970.99	855.67	296.54	366.49	117.19	186.88
2002	982.88	876.01	315.01	393.32	121.02	195.24
2003	1002.44	903.25	333.90	421.19	127.61	208.21

	Carrier Lab		Other Carrier		Intermediary Lab	
	Aged	Disabled	Aged	Disabled	Aged	Disabled
		Non-ESRD		Non-ESRD		Non-ESRD
1995	\$77.33	\$63.59	\$123.21	\$110.84	\$34.62	\$52.20
1996	69.14	57.69	136.10	119.59	36.47	51.59
1997	63.17	54.81	151.31	130.65	37.68	50.47
1998	54.45	48.57	161.43	137.45	37.65	48.67
1999	53.47	48.02	173.70	146.12	39.28	49.89
2000	53.58	48.55	185.41	156.97	40.42	51.91
2001	53.64	49.15	195.47	166.98	41.17	53.45
2002	54.52	50.49	205.58	177.04	41.50	54.43
2003	56.66	53.01	217.00	188.70	43.13	57.13

	Other Intermediary		Home Health		Managed Care	
	Aged	Disabled	Aged	Disabled	Aged	Disabled
		Non-ESRD		Non-ESRD		Non-ESRD
1995	\$106.11	102.53	7.68	0.00	191.94	104.90
1996	121.89	122.78	8.23	0.00	257.21	134.53
1997	132.72	148.29	8.14	0.00	312.20	158.85
1998	117.08	136.20	4.60	0.00	455.56	223.96
1999	102.16	120.33	58.49	45.60	507.52	238.81
2000	112.90	137.55	182.75	143.69	575.71	260.84
2001	118.54	144.82	212.50	166.15	637.53	280.95
2002	112.44	129.76	254.12	197.41	702.87	299.03
2003	120.08	140.04	292.85	226.14	776.52	320.96

¹ Average reimbursement per enrollee on an incurred basis.

Claims Processing Costs as a Fraction of Benefits

Calendar Year	Part A	Part B
1988	0.005508	0.026230
1989	0.005178	0.026494
1990	0.004632	0.025077
1991	0.004691	0.023910
1992	0.004061	0.023004
1993	0.002726	0.022985
1994	0.002531	0.020798
1995	0.002315	0.018306
1996	0.002075	0.016802
1997	0.001933	0.015712
1998	0.002066	0.015203
1999	0.002129	0.015741
2000	0.002129	0.015741
2001	0.002129	0.015741

Approximate Calculation of the USPCC and the National Medicare+Choice Growth Percentage for Aged Beneficiaries

The following procedure will approximate the actual calculation of the USPCCs from the underlying assumptions for the contract year for both Part A and Part B.

Part A:

The Part A USPCC for aged beneficiaries can be approximated by using the assumptions in the tables titled “Part A Projections” and “Claims Processing Costs, as a Fraction of Benefits”. Information in the Part A projections table is presented on a calendar year per capita basis. One can add the per capita amounts over all types of providers (excluding hospice) for the aged. Next, multiply this amount by 1 plus the loading factor for administrative expenses from the table labeled Claims Processing Costs, as a Fraction of Benefits. Then, divide by 12 to put on a monthly basis. The last step is to multiply by .97832 to get the USPCC for the aged non-ESRD. This final factor is the relationship between the total and non-ESRD per capita reimbursements in 2000. This factor does not necessarily hold in any other year.

Part B:

The Part B USPCC can be approximated by using the assumptions in the tables titled “Part B Projections” and “Claims Processing Costs, as a Fraction of Benefits”. Information in the Part B projections table is presented on a calendar year per capita basis. One can add the per capita amounts over all types of providers for the aged. Next, multiply by 1 plus the loading factor for administrative expenses and divide by 12 to put on a monthly basis. Then multiply by .97231 to get the USPCC for the aged non-ESRD.

The National Per Capita Medicare+Choice Growth Percentage:

The national per capita Medicare+Choice growth percentage for 2001 (before adjustment for prior years over/under estimates) is calculated by adding the USPCCs for Part A and Part B for 2001, dividing by the sum of the current estimates of the USPCCs for Part A and Part B for 2000, and then subtracting the adjustment required by section 1853(c)(6)(B). For 2001, this adjustment is -0.5 percent.

Enclosure III

Responses to Comments on the January 14, 2000, Advance Notice of Methodological Changes for Calendar Year (CY) 2001 Medicare+Choice (M+C) Payment Rates

We received two letters of comment on the January 14, 2000, notice: one letter came from a managed care association, and one from a Medicare+Choice organization. These two letters raised several issues.

Comment: Both letters requested more information about the adjustments for changes in the estimates of prior years' growth that were incorporated into the preliminary estimate of the change in the national per capita M+C growth percentage for aged enrollees in CY 2001. Specifically, the commenters requested that HCFA provide:

- written substantiation and validation of their derivation;
- the necessary data, including information on fee-for-service spending, and technical assistance to allow for an independent calculation of the national per capita M+C growth percentages for CYs 1998 through 2001 and the adjustments to the growth rates; and
- earlier notice of possible adjustments for prior years, in the form of detailed and complete mid-year estimates of the growth rate and anticipated adjustments.

Response: We make every effort to provide complete and timely information on the data used to compute the national per capita M+C growth percentage. We are unable to provide detailed information on the derivation of the national per capita M+C growth percentage in the annual January notice because of restrictions on the release of information related to the Administration's budget prior to the announcement of the budget in February. However, we include these data in the March notice each year. The tables included in Enclosures I and II of this notice contain the data required to calculate the change in the national per capita M+C growth percentage for CY 2001 and the adjustments for changes in prior years' estimates.

Comment: One commenter expressed concern that the preliminary estimate of the change in the national per capita M+C growth percentage does not reflect one of the basic intents of the Balanced Budget Act (BBA) of 1997. Specifically, the preliminary estimate of a -1.3 percent national per capita M+C growth percentage for aged enrollees in CY 2001 implies that no counties will receive the local/national blended rates in 2001. The commenter believes that this runs counter to the BBA's intent of using the blended rate formula of the methodology to increase the rates for rural areas and thus to encourage plans to expand their service areas into those counties.

Response: The preliminary estimate of the change in the national per capita M+C growth

percentage was computed as prescribed by the statute. The rate-setting methodology is prescribed in detail in section 1853(c) of the Social Security Act, which was added by the BBA. We have no authority under current law to change the methodology. Section 1853(c)(6) of the Act provides that the national per capita growth percentage equals the projected per capita rate of growth for Medicare expenditures, adjusted for any under- and overprojections in previous years (adjustment for the overstatement of the 1997 base rates is not authorized). It also reflects any statutory adjustments (e.g., -0.5 percent for CY 2001 as required by section 1853(c)(6)(B) of the Act). The final national per capita growth percentage for CY 2001 reflects these requirements. It is important to note that, in accordance with the requirements of the BBA, the adjustments applied to this year's national per capita M+C growth percentage reflect the overstatement of the projected rate of growth in Medicare spending incorporated in the ratebooks for calendar years 1998, 1999, and 2000.

The BBA provides that county rates will be the largest of: (1) the blend amount, which is subject to a budget neutrality adjustment, (2) the minimum 2 percent increase, or (3) the minimum payment amount or floor. The BBA further provides that total payments under the "largest of" method will be budget neutral relative to payments that would have occurred if payments were based solely on the local component of the blended rates. In 1998 and 1999, the budget neutrality adjustments resulted in blend amounts lower than 2 percent minimum increase or floor rates. Hence all counties received either the 2 percent minimum increase or the floor rate, thus preventing budget neutrality from being achieved. In 2000, the budget neutrality adjustment resulted in increases (of very small amounts) in the blend rates that would have applied without the budget neutrality requirement. For 2001, county rates will be based on the 2 percent minimum increase or the floor rate because blend amounts will be less due to the -1.3 percent update. As a result, Medicare+Choice payments in 2001 will exceed the budget neutrality amount, and thus the policy of budget neutrality established by the BBA, by an estimated \$1.6 billion.

It should be noted that the minimum 2 percent increase for 2001 applies to the blended rates that many counties received in 2000. In this way, the substantial increases provided to low cost counties in 2000 through blended rates will carry into 2001. These counties will eventually experience similar gains during the remaining years of the BBA blend phase-in as the national proportion of the blend reaches 50 percent in 2003.

Comment: One commenter expressed concern about the potential exclusion of Qualified Individuals (QIs) from the Medicare+Choice rate adjustment in CY 2002. The commenter agreed that the application of the Medicaid adjustment to this income group is inappropriate for CY 2001 since QIs were not included in rate calibrations. The commenter recommended, however, that HCFA make the necessary changes in calibration of the Medicaid factors to allow the application of the adjustment to QI payment rates beginning with CY 2002. The commenter also noted that state Medicaid agencies, not Medicare+Choice plans, designate beneficiaries as eligible for the Medicaid adjustment. The commenter therefore recommended that health plans

should not be held accountable for errors in these designations.

Response: The two categories of Qualifying Individuals were not in existence when HCFA conducted the analyses and calibrated the Medicaid adjustments to the capitation rates in 1997. The overall costs of Qualifying Individuals were accounted for both in the demographic model in place prior to the BBA and in the risk adjustment model introduced by the BBA. These individuals were not considered, however, in the specific calibration of Medicaid factors for either model. As the commenter notes, this factor alone makes application of the Medicaid adjustment to Qualifying Individuals inappropriate in 2001.

As noted in the January 14 notice, we will analyze the Medicare costs of Qualifying Individuals compared with those for other Medicare beneficiaries in the context of our work on future improvements to risk adjustment under M+C. We do not have sufficient data at this time to make a determination as to the specific recognition of costs associated with this population for 2002.

Comment: One commenter expressed appreciation of HCFA's decision to move forward in developing a methodology to respect outpatient management of congestive heart failure (CHF). The commenter also expressed disappointment that HCFA will not implement any such measure until CY 2002. The commenter noted that managed care associations, Medicare+Choice organizations, and clinical experts had participated in very productive discussions of CHF and risk adjustment during 1999, and that these discussions supported the need to develop payment measures to ensure that plans are not disadvantaged for improving health outcomes for beneficiaries through disease management programs not only for CHF, but also for other diseases.

Response: As we discussed in the January 14, 2000, Advance Notice, HCFA is working to develop an approach to refining payments to provide for recognition of outpatient management of CHF until a comprehensive risk adjustment model is ready for implementation in 2004. The development of an approach to identify specific criteria for recognition of outpatient management of CHF requires additional work at HCFA and consultation with industry and CHF experts during 2000 and will not be ready for 2001. Therefore, any changes in the Medicare+Choice payment methodology with respect to payment for outpatient management of CHF will be announced in the January 15, 2001 Advance Notice of Methodological Changes for Calendar Year (CY) 2002 Medicare+Choice (M+C) Payment Rates, and would apply only to payment in 2002 and 2003.